

BENTON HARBOR HOUSING COMMISSION

Financial Statements

September 30, 2003

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | | | | | |
|--|--|--------------|--|--|--|--------|--|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | | | Local Government Name | | County | |
| Audit Date | | Opinion Date | | Date Accountant Report Submitted to State: | | | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | |
| Reports on individual federal financial assistance programs (program audits). | | | |
| Single Audit Reports (ASLGU). | | | |

| | | | | |
|---|--|------|-------|----------|
| Certified Public Accountant (Firm Name) | | | | |
| Street Address | | City | State | ZIP Code |
| Accountant Signature | | | Date | |

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Certified Public Accountant

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Hemlock, Michigan 48626
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Board of Commissioners
Benton Harbor Housing Commission
925 Buss Avenue
Benton Harbor, Michigan 49022

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Benton Harbor Housing Commission as of and for the year ended September 30, 2003. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Benton Harbor Housing Commission as of September 30, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principals.

In accordance with Government Auditing Standards, I have also issued my report dated June 11, 2004 on my consideration of the Benton Harbor Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Certified Public Accountant

June 11, 2004

BENTON HARBOR HOUSING COMMISSION
Combined Balance Sheet

September 30, 2003

ASSETS

C-3028

CURRENT ASSETS

| | | |
|---------------------------|----|----------------|
| Cash | \$ | 147,959 |
| Accounts Receivable (net) | | 505,324 |
| Investments | | 807 |
| Prepaid Expenses | | 56,989 |
| Inter Program due from | | <u>504,734</u> |

| | | |
|----------------------|----|-----------|
| Total Current Assets | \$ | 1,215,813 |
|----------------------|----|-----------|

NON CURRENT ASSETS

| | | |
|--------------------------------------|----|--------------------|
| Land | \$ | 121,807 |
| Buildings | | 9,000,421 |
| Furniture, Equipment- Dwellings | | 60,767 |
| Furniture, Equipment- Administrative | | 415,485 |
| Leasehold Improvements | | 6,675,244 |
| Accumulated Depreciation | | <u>(7,546,228)</u> |

| | | |
|--------------------------|--|------------------|
| Total Non Current Assets | | <u>8,727,496</u> |
|--------------------------|--|------------------|

TOTAL ASSETS

\$ 9,943,309

BENTON HARBOR HOUSING COMMISSION
Combined Balance Sheet
September 30, 2003

LIABILITIES & EQUITY

C-3028

LIABILITIES:

CURRENT LIABILITIES

| | |
|-------------------------------------|----------------|
| Bank Overdraft | \$ 253,569 |
| Accounts Payable | 61,880 |
| Accrued Liabilities | 39,098 |
| Accrued Compensated Absences | 27,204 |
| Tenants Security Deposit | 59,588 |
| Accounts Payable- Other Governments | 71,052 |
| Deferred Revenue | 4,640 |
| Inter-Program due to | <u>504,734</u> |

Total Current Liabilities \$ 1,021,765

NONCURRENT LIABILITIES

Non Current Accrued Compensated Absences 27,324

Total Liabilities \$ 1,049,089

EQUITY:

| | |
|---------------------------|------------------|
| Contributed Capital | \$ 7,521,288 |
| Undesignated Fund Balance | <u>1,372,932</u> |

Total Equity \$ 8,894,220

TOTAL LIABILITIES & EQUITY \$ 9,943,309

The Accompanying Notes are an Integral part of the Financial Statements

BENTON HARBOR HOUSING COMMISSION
Combined Statement of Income and Expenses
For the year ended September 30, 2003

REVENUE

| | |
|-----------------------|---------------|
| Tenant Rental Revenue | \$ 653,789 |
| Tenant Revenue- Other | 2,607 |
| HUD Grants | 2,051,903 |
| Interest Income | 4,937 |
| Other Income | <u>27,438</u> |

| | |
|----------------------|--------------|
| <u>Total Revenue</u> | \$ 2,740,674 |
|----------------------|--------------|

EXPENSES

| | |
|----------------------|----------------|
| Administrative | \$ 745,915 |
| Tenant Services | 111,637 |
| Utility Expenses | 295,516 |
| Ordinary Maintenance | 726,540 |
| Protective Services | 68,387 |
| General Expenses | <u>172,619</u> |

| | |
|-----------------------|------------------|
| <u>Total Expenses</u> | <u>2,120,614</u> |
|-----------------------|------------------|

| | |
|--|------------|
| <u>Excess (Deficiency) of Revenues over Expenses</u> | \$ 620,060 |
|--|------------|

OTHER SOURCES & (USES)

| | |
|-----------------------------|------------------|
| Casualty Losses | \$ (1,600) |
| Housing Assistance Payments | (436,550) |
| Depreciation Expenses | <u>(627,536)</u> |

| | |
|-----------------------------------|--------------------|
| <u>Total Other Sources (Uses)</u> | <u>(1,065,686)</u> |
|-----------------------------------|--------------------|

| | |
|--------------------------|---------------------|
| <u>NET PROFIT (LOSS)</u> | \$ <u>(445,626)</u> |
|--------------------------|---------------------|

The Accompanying Notes are an Integral part of the Financial Statements

BENTON HARBOR HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended September 30, 2003

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|---------------|
| Receipts from Customers | \$ 714,453 |
| Payments to Suppliers | (1,973,240) |
| Payments to Employees | (604,302) |
| HUD Grants | 2,051,903 |
| Other Receipts (Payments) | <u>32,375</u> |
| Net Cash Provided (Used) by Operating Activities | \$ 221,189 |

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

| | |
|---|---------------------|
| Purchases of Capital Assets | \$ <u>(364,592)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ (143,403) |
| Balance- Beginning of Year | <u>291,362</u> |
| Balance- End of Year | \$ <u>147,959</u> |

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

| | |
|---|-------------------|
| Net Profit or (Loss) | \$ (445,626) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | |
| Depreciation | 627,536 |
| Changes in Assets (Increase) Decrease: | |
| Receivables | (170,639) |
| Investments | 110,816 |
| Prepaid Expenses | (22,509) |
| Interfund Due From | (120,404) |
| Changes in Liabilities Increase (Decrease): | |
| Bank Overdraft | 183,037 |
| Accounts Payable | (2,979) |
| Accrued Liabilities | (62,207) |
| Accrued Compensated Absences | 17,623 |
| Security Deposits | 1,537 |
| Accounts Payable- Other Governments | (4,403) |
| Deferred Revenue | (10,997) |
| Interfund Due To | <u>120,404</u> |
| Net Cash Provided by Operating Activities | \$ <u>221,189</u> |

The Accompanying Notes are an Integral part of the Financial Statements

BENTON HARBOR HOUSING COMMISSION
Combined Statement of Changes in Fund Balance
For the Year Ended September 30, 2003

Contributed Capital

| | |
|----------------------------------|---------------------|
| Balance at Beginning of Year | \$ 8,074,317 |
| Depreciation (Add Back) | <u>(553,029)</u> |
| Contributed Capital- End of Year | \$ <u>7,521,288</u> |

Undesignated Fund Balance

| | |
|--|---------------------|
| Balance at Beginning of Year | \$ 1,202,821 |
| Net Income (Loss) for the Year | (445,626) |
| Depreciation Add Back | 553,029 |
| Prior Period Adjustment: | |
| Accrued Expenses Reversed | <u>62,708</u> |
| Undesignated Fund Balance- End of Year | \$ <u>1,372,932</u> |

The Accompanying Notes are an Integral part of the Financial Statements

BENTON HARBOR HOUSING COMMISSION
Notes to Financial Statements
September 30, 2003

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Benton Harbor Housing Commission, Benton Harbor, Michigan, (Commission) was created by ordinance of the city of Benton Harbor. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

| | | |
|--------------------|--------------------|-----------|
| MI 10-1,2,3,5, & 7 | Low rent program | 370 units |
| MI 33-V010-1,3 | Section 8 Vouchers | 128 units |

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above, no component units exist.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Notes to Financial Statements- continued

Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

| | |
|----------------------------|------------|
| Buildings and Improvements | 15 years |
| Equipment | 3-10 years |

Compensated Absences

Compensated absences are for unused vacation days, personal leave days, and accumulated compensation time, based on total accumulation of time at current rates of compensation. Financial Accounting Standards Board (FASB) # 43 establishes proper generally accepted accounting principles (GAAP) concerning such accruals. The following criteria must be met:

- 1) Employee's right to compensation is attributable to past performance.
- 2) The right to compensation is vested or accumulates.
- 3) It is probable that the compensation will be paid.
- 4) The amount is reasonably estimable.

The Commission accrued a percentage of the above based on an analysis of past retirements and current potential using the above criteria.

The estimated portion of the liability for vested leave benefits attributable to the Commission is recorded as an expenditure and liability in each of the respective programs.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

| | |
|---------------------------|-------------------|
| Checking Accounts | \$ 30,831 |
| Savings Accounts | 113,411 |
| Petty Cash | <u>50</u> |
| Financial Statement Total | \$ <u>144,292</u> |

Investments:

| | |
|---------------------------|--------|
| FNMA Notes- reimbursement | \$ 807 |
|---------------------------|--------|

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

| | <u>Categories</u> | | | <u>Carrying</u> | <u>Market</u> |
|------------------|-------------------|----------|----------|-------------------|-------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>Amount</u> | <u>Value</u> |
| Cash: | | | | | |
| Checking A/C's | \$ 30,831 | \$ | \$ | \$ 30,831 | \$ 30,831 |
| Petty Cash | 50 | | | 50 | 50 |
| Savings Accounts | <u>113,411</u> | | | <u>113,411</u> | <u>113,411</u> |
| Total Cash | \$ <u>144,292</u> | \$ | \$ | \$ <u>144,292</u> | \$ <u>144,292</u> |

Investments:

| | | | | | |
|-------|---------------|----|----|---------------|---------------|
| C/D's | \$ <u>807</u> | \$ | \$ | \$ <u>807</u> | \$ <u>807</u> |
|-------|---------------|----|----|---------------|---------------|

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Accounts Receivable

Accounts receivable consists of the following:

| | |
|--|-------------------|
| Accounts Receivable- Tenants | \$ 17,190 |
| Allowance for Doubtful Accounts | <u>(12,491)</u> |
| Net Accounts Receivable-tenants | \$ 4,699 |
| Account Receivable- HUD (net of uncollectible amount of \$ 12,965) | 498,313 |
| Accounts Receivable- Miscellaneous | <u>2,312</u> |
| Financial Statement Total | \$ <u>505,324</u> |

Notes to Financial Statements, continued

Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

| | |
|---------------------------|------------------|
| Prepaid Insurance | \$ 42,565 |
| Prepaid Employee Benefits | <u>14,424</u> |
| Financial Statement Total | \$ <u>56,989</u> |

Note 6: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

| | Beginning <u>of Year</u> | <u>Additions</u> | <u>Deletions</u> | End <u>of Year</u> |
|------------------------------------|-----------------------------|---------------------|------------------|-----------------------|
| Land | \$ 121,807 | \$ | \$ | \$ 121,807 |
| Buildings | 9,000,421 | | | 9,000,421 |
| Furniture & Equipment-Dwellings | 60,767 | | | 60,767 |
| Furniture & Equipment-Admin | 391,972 | 23,513 | | 415,485 |
| Leasehold Improvements | <u>6,334,165</u> | <u>341,079</u> | | <u>6,675,244</u> |
| | \$15,909,132 | \$ 364,592 | \$ | \$16,273,724 |
| Less Accumulated Depreciation | <u>6,918,692</u> | <u>627,536</u> | | <u>7,546,228</u> |
| | \$ <u>8,990,440</u> | \$ <u>(262,944)</u> | \$ | \$ <u>8,727,496</u> |

Note 5: Accrued Liabilities

Accrued Liabilities consist of the following:

| | |
|---------------------------|------------------|
| Accrued Wages & Benefits | \$ 6,051 |
| Accrued Utilities Payable | 10,108 |
| Account Payable HUD | 1,313 |
| Homebuyers Escrows | <u>21,626</u> |
| Financial Statement Total | \$ <u>39,098</u> |

Notes to Financial Statements- continued

Note 7: HUD Guaranteed Debt and Contributed Capital.

HUD guaranteed debt has been reclassified to Contributed Capital for all years ending after September 30, 1998. The reclassification is a result of all HUD programs converting from a basis of accounting prescribed by HUD other than Generally Accepted Accounting Principles (GAAP), to GAAP.

The following represents the original Capital Contribution as a result of the above classification, as of September 30, 1999:

| | |
|----------------------|-----------|
| FFB Notes | \$ 17,951 |
| HUD Held Notes | 2,983,754 |
| HUD Guaranteed Bonds | 645,000 |

Contributed Capital was increased by additional capital contributions for all years prior to September 30, 2000, and decreased by depreciation add backs annually. For a detail of the current balance, see the Combined Statement of Contributed Capital within this report.

Note 8: Pension Plan.

The Commission has a Defined Contribution Pension Plan (Plan) for governmental employees. The Plan allows for early retirement (age 55), normal retirement (age 65), employer contributions (10% of compensation), mandatory after-tax employee contributions (5% of compensation), and voluntary after tax employee contributions (1-10% of compensation). In addition to the above, no age requirements exist for eligibility, and 100% vesting is immediate. Plan assets and funding statistics are available under separate cover provided to the Commission by the Insurer.

Note 9: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

| <u>Types of Policies</u> | <u>Coverage's</u> |
|--|-------------------|
| Property | \$ 28,462,000 |
| General Liability | 1,000,000 |
| Automobile Liability | 1,000,000 |
| Dishonesty Bond | 1,000,000 |
| Worker's Compensation and other riders: minimum coverage's required by the State of Michigan | |

Notes to Financial Statements- continued

Note 10: Segment Information for Enterprise Funds.

The Commission maintains an enterprise fund; segment information for the year ended September 30, 2003, is as follows:

| | |
|----------------------------------|--------------|
| Operating Revenue | \$ 2,740,674 |
| operating Income | 620,060 |
| Non Operating Revenue (Expenses) | |
| Casualty Losses | (1,600) |
| Housing Assistance Payments | (436,550) |
| Depreciation Expense | (627,536) |
| Net Profit (Loss) | (445,626) |
| Non Current Assets (net) | 8,727,496 |
| Total Assets | 9,943,309 |
| Retained Earnings | 1,372,932 |

Note 11: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 12: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

BENTON HARBOR HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2003

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

| | <u>Annual Program Expenditures</u> |
|--|--|
| * <u>CFDA 14.850 Public and Indian Housing</u> | |
| C-3028 Operating Subsidies | \$ <u>740,889</u> |
| * <u>CFDA 14.855 Housing Assistance Programs</u> | |
| C-3028 Section 8 Housing Choice Vouchers | \$ <u>501,907</u> |
| * <u>CFDA 14.872 Capital Projects Grants</u> | |
| C-3028 Capital Projects Funds | \$ <u>675,772</u> |
| <u>CFDA 14.854 Drug Elimination Grant</u> | |
| C-3028 Drug Elimination Program | \$ <u>89,893</u> |
| | \$ <u>2,051,903</u> |

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

| <u>Types of Policies</u> | <u>Coverage's</u> |
|--|-------------------|
| Property | \$ 28,462,000 |
| General Liability | 1,000,000 |
| Automobile Liability | 1,000,000 |
| Dishonesty Bond | 1,000,000 |
| Worker's Compensation and other riders: | |
| minimum coverage's required by the State of Michigan | |

BENTON HARBOR HOUSING COMMISSION
Status of Prior Audit Findings
September 30, 2003

The prior audit of the Benton Harbor Housing Commission for the period ended September 30, 2001, contained two audit findings; the corrective actions by the Commission are as follows:

- 1) Excessive Accounts Receivable- Average outstanding balance has decreased over the prior year, current levels within acceptable ranges.
- 2) Work Order System Inadequate- Commission cut off prior year unreported work orders and inquired of the residents whether outstanding work orders remained incomplete; Commission then set about completing and closing all completed work orders. Current system appears adequate.

BENTON HARBOR HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
September 30, 2003

Compliance

I have audited the compliance of Benton Harbor Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2003. Benton Harbor Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Benton Harbor Housing Commission's management. My responsibility is to express an opinion on Benton Harbor Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Benton Harbor Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Benton Harbor Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

Low Rent Public Housing:

| <u>Finding</u> | <u>Audit Number</u> | <u>Compliance Requirements</u> |
|--------------------------|-------------------------|--------------------------------|
| Travel Policy Violations | 03-1 | Cash Management |

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

Internal Control over Compliance

The management of Benton Harbor Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Benton Harbor Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

June 11, 2004

BENTON HARBOR HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
September 30, 2003

I have audited the financial statements of Benton Harbor Housing Commission, Benton Harbor, Michigan, as of and for the year ended September 30, 2003, and have issued my report thereon dated June 11, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Benton Harbor Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Benton Harbor Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted instances which may be considered weaknesses that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

June 11, 2004

Schedule of Findings and Questioned Cost- continued

| <u>Name of Federal Program</u> | <u>Major Program</u> | <u>Questioned Costs</u> | <u>Audit Finding Number</u> |
|--------------------------------|--------------------------|-----------------------------|---------------------------------|
| Low Rent Public Housing | Yes | None | 03-1 |
| Section 8 Housing Choice | Yes | None | N/A |
| Capital Projects Funds | Yes | None | N/A |
| Drug Elimination Program | No | None | N/A |
| ROSS Grant | No | None | N/A |

Findings, Recommendations and Replies
September 30, 2003

The following finding of the Benton Harbor Housing Commission, for the year ended September 30, 2003, was discussed with Danethel Whitfield, Executive Director in an exit interview conducted on June 11, 2004:

Finding 03-01

Travel Policy Violations-

The Commission's travel policy calls for all travel vouchers and supporting documentation must be submitted within ten (10) working days of the trip. Travel advances for Commissioner's and staff exceeded 90 days at September 30, 2003.

Recommendation

The Commission establishes policies to insure compliance with rules and regulations consistent with Federal, State and Local ordinances; implementation and adherence is essential to a successful operation; the Commissioners are in violation of their own good policy.

I recommend all travel advances be cleared immediately; future violations of the policy should result in a loss of the privilege.

Reply

The travel policy violations will be discussed. The travel policy will be adhered to or that person will lose travel privileges.